6 Changes in Equilibrium

7 Price Controls and Quantity Controls

8 International Trade

SECTION 2 SUPPLY AND DEMAND
Equilibrium and Demand Curve Shifts

An increase in demand...

... leads to a movement along the supply curve due to a higher equilibrium price and higher equilibrium quantity.

Price of cotton

Quantity of cotton

Price rises

Quantity rises

E1

E2

P1

P2

D1

D2

Q1

Q2
Equilibrium and Supply Curve Shifts

A decrease in supply... leads to a movement along the demand curve due to a higher equilibrium price and lower equilibrium quantity.

Price of cotton

Price rises

Price

Quantity of cotton

Quantity falls
Simultaneous Shifts of Supply and Demand

Two opposing forces determining the equilibrium quantity. The increase in demand dominates the decrease in supply.

- **Small decrease in supply**
- **Large increase in demand**

Graph:
- Price of cotton
- Quantity of cotton
- Points $E_1$ and $E_2$
- Lines $D_1$ and $D_2$, $S_1$ and $S_2$

The increase in demand dominates the decrease in supply.
## Summary

<table>
<thead>
<tr>
<th>Simultaneous Shifts of Supply and Demand</th>
<th>Supply Increases</th>
<th>Supply Decreases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand Increases</td>
<td>Price: ambiguous</td>
<td>Price: up</td>
</tr>
<tr>
<td></td>
<td>Quantity: up</td>
<td>Quantity: ambiguous</td>
</tr>
<tr>
<td>Demand Decreases</td>
<td>Price: down</td>
<td>Price: ambiguous</td>
</tr>
<tr>
<td></td>
<td>Quantity: ambiguous</td>
<td>Quantity: down</td>
</tr>
</tbody>
</table>
Application: Gas Prices

• What’s causing low gas prices?
  • Shifts in demand?
  • Shifts in supply?